

The economy in 2009

This year was a tough and difficult one for the Puerto Rican economy. In part due to the Great Recession and the financial crises that have adversely affected economic activity around the world since 2007. In addition, however, there is also a significant local, Puerto Rico-specific component to our economic problems. The root of these problems lie in Puerto Rico's long-term structural subordination to the United States, on which we are dependent on corporate tax breaks, transfer payments, and public borrowing. Indeed, the signs of economic crisis — high, and increasing unemployment; low incomes and rising prices; widespread poverty and increasing inequality; chronic deficits and exploding public indebtedness — have been evident in Puerto Rico well before the global recession hit in 2007. This means there is a good chance that what we are witnessing is not merely a cyclical phenomenon, but rather the grand finale of Puerto Rico's colonial model of economic development.

Given this background, let's take a look at the performance of our economy in 2009.

■ Economic Activity

Puerto Rico does not publish quarterly gross national product, or GNP, statistics. Therefore, we have to rely on various alternative measures of economic activity to gauge where we are in the economic cycle. One of these alter-

native measures is the Government Development Bank, or GDB, Economic Activity Index, which comprises four indicators — payroll employment, electric power consumption, cement sales, and gasoline consumption. This index had an absolute value of 133.2 in October 2009 compared to a value of 139 in January, a decrease of 5.8 points, equivalent to a decline in economic activity of 4.17 percent during that 10 month period. The year-over-year trend is slightly worse, revealing a decline in economic activity of 5.9 percent between October 2008 and October 2009.

■ Employment, unemployment

According to the Labor Department's Household Survey, there were 1.12 million people employed in October 2009, a decline of 52,000 relative to the 1.17 million people employed in January 2009. This means that during the first 10 months of calendar year 2009 Puerto Rico lost an average of 5,200 jobs per month.

The number of unemployed people reflects a similar trend in the opposite direction. In January 2009 there were 175,000 people officially unemployed; while in October there were 212,000, an increase of 37,000. At the same time, the unemployment rate increased from 13 percent in January to 15.9 percent in October.

If we look at the year-over-year employment trend the picture is also slightly worse. Total employ-



Sergio Marxuach
Commentary

ment decreased by 68,000 between October 2008 and October 2009; while unemployment increased by 40,000 and the unemployment rate increased from 12.7 percent to 15.9 percent during the same period. Please note these unemployment statistics do not include some 12,000 government workers whose layoffs will not be effective until early 2010.

■ Public Finances

The Commonwealth's general fund closed fiscal year 2008-09, which ended June 30, 2009, with a deficit. The magnitude of this deficit was the subject of intense debate. The administration claims it was \$3.23 billion; we at the Center for the New Economy see it closer to \$2.8 billion; while the political opposition calculates it at around \$1.8 billion. Regardless of the final amount, the bottom line is that in fiscal year 2009 Puerto Rico reported its seventh general fund deficit in a row.

On the revenue side, general fund

net revenues for fiscal year 2009 amounted to \$7.76 billion, some \$160 million above the revised estimate of \$7.6 billion. The forecast for fiscal year 2010 is for general fund net revenues to be around \$7.67 billion, some \$90 million below actual revenues for the previous fiscal year. However, data for the first four months of fiscal year 2010 indicates that the Treasury Department's revenues are already down \$155 million relative to actual revenues for the same period last year.

Puerto Rico's public indebtedness continued increasing at an unsustainable rate during 2009. As of June 30, 2009, Puerto Rico's total public debt amounted to \$58.41 billion, reflecting a net increase of \$5.02 billion, or 9.4 percent, relative to its level of \$53.39 billion as of June 30, 2008. As a percentage of GNP, the island's public debt increased from 87 percent in 2008 to 95.5 percent in 2009.

■ Financial Institutions

Private financial institutions in Puerto Rico were under great strain in 2009. Total commercial bank assets in Puerto Rico have declined from \$101.5 billion as of December 2005 to \$92.8 billion as of September 30, 2009, a decline of \$8.7 billion. This means we are going through a significant credit contraction as the local financial industry is deleveraging to bring the asset side of balance sheets into line with capital requirements. At a time when the Puerto Rican

economy needs more, not less, private lending, this is not good news. In addition, three of the eight publicly traded local banks are operating under Cease and Desist orders issued by the FDIC. According to analysts at Keefe, Bruyette & Woods this means the FDIC could be active in Puerto Rico next year.

■ Social Stress

During 2009 we witnessed an alarming increase in racist and xenophobic statements in the media, as people increasingly look for scapegoats to blame for their dire economic situation. The blatantly racist and anti-Semitic comments recently made by one so-called community leader from Guayama constitute one particularly egregious example of this deplorable conduct. These comments deserve to be repudiated and rejected in the strongest terms by all rational, thinking people in Puerto Rico.

In sum, we close 2009 still mired in a recession. The publicly available data indicates economic activity is still declining, albeit at a slower rate than in 2008. However, we find no empirical evidence to support the assertion that we have reached bottom yet or that we have entered the recovery phase. We can only hope 2010 brings better economic news.

The author is Director for Policy Development at the Center for the New Economy, a Puerto Rico-based think tank. www.grupocne.org